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Message Text

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47/60
ACTION SS-30

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---------- 103444
O R 192100Z FEB 74
FM AMEMBASSY KINGSTON
TO SECSTATE WASHDC IMMEDIATE 4019
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S E C R E T KINGSTON 583

EXDIS

C O R R E C T E D COPY(FOR SUBJECT LINE SITREP 10 VICE 9)

E.O. 11652: GDS
TAGS: EMIN, PINT, JM
SUBJECT: BAUXITE NEGOTIATIONS SITREP 10

SUMMARY: ALCOA REPORTS THAT GOVERNMENT IS ONCE AGAIN CONSIDERING NATIONALIZATION OF ENTIRE BAUXITE ALUMINA INDUSTRY, AND THAT NEGOTIATIONS TO BEGIN IN MARCH CONSTITUTE BEGINNING OF PHASED, TWO AND HALF YEAR PROGRAM TO ACHIEVE THIS END. ACCORDING TO THE REPORT COMPENSATION WOULD BE PAID, BUT WOULD BE CONTINGENT ON PROFITS AND SPACED OUT OVER A 30-40 YEAR PERIOD.

1. CHARGE LUNCHED WITH WASHBURN OF ALCOA TODAY AND HEARD AN ARRESTING REPORT OF A CONVERSATION BETWEEN WASHBURN AND ALAN ISAACS, MINISTER OF MINES AND NATIONAL RESOURCES, YESTERDAY. ACCORDING TO THE REPORT ISAACS HAD A MEETING WITH PRIME MINISTER MANLEY AFTER HIS (ISSAACS) RETURN FROM SURINAM WHERE HE HAD GONE FOR MEETINGS PREPARATORY TO THE CONAKRY MEETING OF BAUXITE PRODUCTING NATIONS NOW SCHEDULED FOR EARLY MARCH. THE PM BRIEFED ISAACS ON SITUATION WITH RESPECT TO BAUXITE NEGOTIATIONS SAYING THERE HAD BEEN MUCH ACITIVITY DURING THE MINISTER'S ABSENCE. PRIME MINISTER ALLEGEDLY SAID THAT THE PLAN WAS NOW TO BEGIN A PROCESS IN MARCH THAT WOULD ULTIMATELY END WITH THE COMPLETE NATIONALIZATION OF THE BAUXITE AND ALUMINA INDUSTRIES IN JAMAICA BY JULY, 1976.

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2. ISAACS THEN SHOWED WASHBURN A CHART LAYING OUT THE ENTIRE PHASED TAKEOVER PROGRAM. KEY STEPS AND DATES IN PROGRAM WERE AS FOLLOWS:

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--MARCH 5, 1974 OPENING OF CONAKRY MEETINGS WHICH ISAACS
WILL ATTEND.

--MARCH 1-8, 1974: INVITATIONS TO NEGOTIATE WITH THE GOVERNMENT
FORMALLY EXTENDED TO THE SEVERAL COMPANIES.

--MARCH 15, 1974 (APPROXIMATE): GENERAL MEETING BETWEEN ALL THE
COMPANIES AND THE GOVERNMENT IN WHICH THE GOVERNMENT WILL
CANDIDLY STATE IS OBJECTIVES AND THE MEANS IT INTENDS TO
EMPLOY.

--APRIL 29, 1974: CONCLUSION OF INDIVIDUAL NEGOTIATIONS AIMED
AT ARRIVING AT A NEW FORMULA BY WHICH GOVERNMENT WILL
DERIVE ITS REVENUES FROM THE INDUSTRY.

-- MAY 6, 1974: BEGINNING OF NEGOTATIONS WITH THE SEVERAL COMPANIES
AIMED AT EVENTUAL GOVERNMENT OWNERSHIP OF ALL ASSETS INCLUDING
ALUMINA PLANTS, PLANT AND EQUIPMENT USED IN BAUXITE MINING
AND TRANSPORT, AND MINING LANDS AND RIGHTS

--SEPTEMBER 30, 1974: CONCLUSION OF INDIVIDUAL NEGOTIATIONS
ON OWNERSHIP.

--DECEMBER 31, 1974: ESTABLISHMENT OF WHOLLY GOVERNMENT OWNED
NATIONAL BAUXITE COMPANY

--JANUARY 31, 1975: BEGINNING OF NEGOTIATIONS ON SUPPLY OF
BAUXITE AND ALUMINA BY NATIONAL BAUXITE COMPANY TO FOREIGN
PURCHASERS (COMPANIES
CURRENTLY OPERATING IN JAMAICA, AND PERHAPS OTHERS AS
WELL).

--OCTOBER 1, 1975: VESTING DAY FOR ASSETS OF KAISER AND REYNOLDS.

--JULY 1, 1975: VESTING DAY FOR ALCAN

--JULY 1, 1976: VESTING DAY FOR ALCOA, REVERE, AND ALPART.
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3. ACCORDING TO WASHBURN, CHART ALSO SHOWED COMPENSATION TO
BE PAID TO EACH COMPANY. HE SAID HE DID NOT HAVE TIME TO REGISTER
ON FIGURES FOR OTHER FIRMS, BUT THAT FIGURE FOR ALCOA WAS
US$116 MILLION (AS AGINST APPROX US$160 MILLION BOOK VALUE).
ISAACS TOLD WASHBURN THAT COMPENSATION WOULD BE PAID AT A
RATE OF US$14 MILLION PER YEAR TO THE ENTIRE INDUSTRY. HE
DID NOT SAY HOW THIS AMOUNT WOULD BE APPORTIONED OVER THE DEBT
OWING TO EACH COMPANY.

4. ON THE REVENUE SIDE ISAACS SAID THE GOVERNMENT HAS CALCULATED
THAT IT NEEDS US$130 MILLION MORE THAN IT IS NOW GETTING FOR
A TOTAL BAUXITE/ALUMINA REVENUE OF US$143 MILLION. WASHBURN
CONFIDED THAT HE THOUGHT THAT

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THE GOVERNMENT WOULD SETTLE FOR $80 MILLION (ODDLY ENOUGH A
FIGURE MEYER MATALON ONCE CITED AS THE "MINIMUM" REQUIREMENT
AT PRESENT PRODUCTION LEVELS.)

6. COMMENT: EMBASSY DOES NOT KNOW HOW TO EVALUATE THIS REPORT.
DEPARTMENT WILL RECALL THAT LATE LAST YEAR ALCOA COME UP WITH
SIMILAR THOUGH MILDER STORY FROM THE SAME SOURCE.THAT TIME THEIR
FACTS TURNED OUT TO BE SUBSTANTIALLY CORRECT, BUT THEY HAD GREATLY
EXAGGERATED THEIR IVORT AS WELL AS MINIMIZING THE CONSTRAINTS
OPERATING ON THE GOVERNMENT. FOR THE PAST MONTH THE EVALUATION
OF THE GOVERNMENT'S POSITION HAS APPEARED TO BE IN THE DIRECTION
OF MODERATION. CLEARLY THERE IS STILL A GREAT DEAL OF PUSHING
AND HAULING GOING ON OVER BAUXITE, AND THE SO CALLED RADICALS
MAY HAVE TAKEN ADVANTAGE OF THE ABSENCE OF BOTH ISAACS AND
MEYER MATALON FROM THE ISLAND TO MAKE ANOTHER PLAY, BUT WE WOULD
BE SURPRISED IF THEY HAVE BEEN SUCCESSFUL IN ALTERING THE POSITION
AS WE UNDERSTOOD IT SO COMPLETELY AS THIS REPORT INDICATES.
ISAACS OWN POSITION IS AMBIGUOUS. HE HAS CLEARLY BEEN SHUNTED
TO THE SIDE AND, IF THINGS REMAIN AS THEY NOW ARE, WILL NOT
PLAY AN IMPORTANT ROLE IN THE FORTHCOMING NEGOTIATIONS. HE
IS NOT ABOVE TRYING TO USE THE COMPANIES (AND US FOR THAT
MATTER) IN AN EFFORT TO RESTORE HIS POSITION AND ACCOMPLISH
HIS OWN ENDS BY FEEDING US HALF TRUTHS. ON THE OTHER HAND, FIRST PART
OF ABOVE SCENARIO (UP TO AND INCLUDING APRIL 29, 1974)
CORRESPONDS SO CLOASELY TO WHAT WE DO KNOW THAT PRESENCE OF
OTHERHALF IS CAUSE FOR CONCERN.

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5. WASHBURN IS SENDING A COURIER TO PITTSBURGH TODAY WITH HIS
ACCOUNT OF MEETING WITH ISAACS. WE ARE ATTEMPTING TO CHECK
STORY OUT EXERCISING UTMOST DISCRETION IN ORDER TO NOT STIR
UP DUST UNNECESSARILY. THIS AFTERNOON EMBOFF ASKED G. ARTHUR
BROWN, GOVERNOR OF BANK OF JAMAICA, FOR HIS UNDERSTANDING
OF SITUATION COMMENTING AT SAME TIME THAT WE OFTEN HEARD
HORROR STORIES BY NO MEANS ALL OF WHICH WE BELIEVED. BROWN
SAID THATE WERE NO REPEAT NO PLANS FOR ANY ACTION APPROACHING
OR APPROXIMATING NATIONALIZATION. HEWITT

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